

CIA/OER/IM 71-31 ECONOMIC SITUATION IN S. VIETNAM

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*CIA/DER/IM 71-31*



DIRECTORATE OF  
INTELLIGENCE

# Intelligence Memorandum

*The Economic Situation In South Vietnam*

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February 1971

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CENTRAL INTELLIGENCE AGENCY  
Directorate of Intelligence  
February 1971

INTELLIGENCE MEMORANDUM

The Economic Situation In South Vietnam

Highlights

Saigon prices increased before Tet, but by 8 February the USAID index had fallen slightly below the average level for December. Black market currency prices continue to be stable.

The money supply increased sharply in December, bringing the increase for the year to 16% -- much higher than preliminary estimates.

President Thieu has signed the 1971 government budget, but anticipated changes in spending and revenue targets already have made it obsolete.

Joint US/GVN economic talks are continuing, but few specific stabilization measures have been agreed upon. With the exception of raising the price of imported rice, it seems likely that no major steps will be taken before the presidential election this fall.

South Vietnam is expected to produce nearly enough rice to feed itself this year. Imports are expected to decline from 559,000 metric tons last year to 100,000 tons in 1971. Continued reliance on imports to supply some rice-deficit areas is due more to marketing and distribution problems than to production limitations.

Charts on money supply and prices, foreign exchange reserves, import licensing, currency and gold prices, and the government budget follow the text.

*Note: This memorandum was prepared by the Office of Economic Research.*

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### Prices

1. The average retail price level in Saigon rose 3% in January mainly as a result of increased consumer buying for the Tet holiday celebration. Following Tet, however, prices dropped even slightly below the level of December 1970. During the three months since the October reforms the average Saigon price level rose 5%, compared with 13% during the corresponding period of a year ago.

2. Since the end of December, rice prices have risen 6% to 9%, but still are below the levels prevailing in the spring of 1970. Saigon rice merchants attribute the recent slow, steady increase in rice prices to the general upward pressure on prices before Tet as well as to rumors that suspension of US rice imports was imminent. It also is probable that the rice trade is aware that the government soon plans to raise the official prices of US rice (see paragraph 7) and is anticipating this action by increasing prices of domestic rice.

3. The USAID monthly average price index for imported items rose about 1% between 29 December and 19 January. Data since 19 January are not yet available. During 1970 the import price level rose 31%, while the general retail price level in Saigon rose 30%. Excluding rice, however, import prices rose 39% last year.

### Money Supply

4. Preliminary estimates of the growth of the money supply in 1970 (about 10%) proved to be overly optimistic. Recently released data for December show that the money supply rose 4% in December, bringing the increase for the year to 16%. During December, GVN deficit financing and private credit extension continued to increase fairly rapidly, while the growth of advance deposits for imports and time and term deposits slowed considerably.

### Black Market Currency Prices

5. Saigon black market currency and gold prices continue to fluctuate within a very narrow range. On 8 February the price of dollars was 395 piasters per dollar, and the rate for MPC (scrip) was the

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same as the legal rate of 275 piasters per dollar. The price of a dollar's worth of gold leaf was 495 piasters, the highest since early November. The increase reportedly was due to a temporary halt in gold smuggling from Laos as a result of tighter airport security in Vientiane.

#### 1971 Budget

6. On 20 January, President Thieu promulgated the 1971 government budget, which sets expenditures at 235 billion piasters (\$855 million at the parallel market rate of 275 piasters per dollar) and revenues at 200 billion piasters, including 30 billion piasters in US aid. The planned deficit of 35 billion piasters, which will have to be covered by deficit financing, is roughly the same as the actual deficit in the past three years. Thieu, however, signed the Lower House version of the budget, which excludes any provision for government wage increases that are anticipated this year. The government, therefore, probably will follow the normal practice of submitting later in the year a supplementary budget to the National Assembly, which could add as much as 30 billion piasters to expenditures. Moreover, joint US/GVN economic talks now under way probably will result in revised revenue targets (see paragraphs 7 and 8).

#### Stabilization Talks

7. Talks between US and Vietnamese officials concerning stabilization measures for 1971 have been under way in Saigon since December, but few firm decisions have been made. Both sides have presented a series of proposals affecting the exchange rate, import and other taxes, interest rate policy, and import licensing. General agreement seems to have been reached on the following matters: selling substantial amounts of treasury bills to commercial banks in order to reduce government borrowing from the National Bank; increasing administrative revenues from postage, telephone service, electric power, and the like by 50%; raising perequation taxes on selected imports; and reducing subsidies to government-owned enterprises by placing them on a commercial footing. The GVN reportedly also has agreed to raise the official price of imported rice early in March to bring it in line with domestic rice prices. This

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step, originally planned for December 1970, is designed to encourage marketing throughout the country of the now adequate supplies of domestic rice. Concurrent with the price increase, the government plans to give government employees a wage increase in the form of a cash rice allowance. Depending on the amount, the rice allowance will add 7 to 15 billion piasters to government expenditures.

8. The United States is urging the Vietnamese -- thus far without much success -- to open up import licensing for still restricted luxury items such as motorbikes and to shift all freight and insurance charges as well as some additional imports from the official exchange rate of 118 piasters per dollar to the parallel market rate of 275 piasters per dollar. The parallel rate now applies only to imports of luxury goods, exports, invisible transactions such as profit remittances, and purchases of piasters by US personnel in Vietnam for their personal expenditures. Both governments are exploring the ramifications of shifting US government purchases of piasters for official use to the parallel market rate. These piaster purchases account for about two-thirds of Vietnam's earnings of foreign exchange. A change in the rate, therefore, would considerably reduce the country's dollar earnings at the present level of US piaster spending. Since the United States has made a commitment to provide \$750 million worth of import financing in 1971, the shortfall will have to be made up by increasing piaster spending for items such as local procurement of goods and increased reliance on local construction contractors. The net effect would be to leave South Vietnam's dollar earnings unchanged but to increase claims on Vietnamese resources, especially labor.

#### Self-Sufficient in Rice?

9. Rice deliveries from the Delta to Saigon in 1970 totaled 399,000 metric tons -- the highest level since 1965. They will have to increase considerably this year, however, to around 700,000 tons if the rice-deficit areas of the country are to be adequately supplied without additional imports. Only in 1963, the last year of significant exports, were shipments out of the Delta more than 700,000 tons. Deliveries during 1960-65 averaged 563,000 tons per year. US agricultural specialists believe

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that production in the Delta surplus areas will be great enough to supply the necessary shipments, but no one can be sure that market conditions will be favorable enough or that transport facilities will be adequate. Nevertheless, imports, which totaled 559,000 tons in 1970, are to be cut to about 100,000 tons this year. During the past five years, imports ranged from roughly 15% to 25% of total rice availability, but are expected to amount to only 3% of supply this year.

10. In a recent study, US agricultural experts identified four major obstacles to eliminating dependence on imports in the northern half of the country -- the current low prices paid to Delta farmers, the shortage and increased cost of commercial credit to rice merchants, the near absence of commercial contacts between merchants in the Delta and those in Military Regions 1 and 2, and the inadequacy of Delta port facilities and coastal shipping to move the rice from the Delta to the northern rice-deficit provinces. Paddy prices, which reached an all-time high in late 1969 and held up fairly well through early 1970, began to decline slowly in mid-1970 and currently are about one-third below the peak 1969 prices. Large-scale government purchases of Delta rice this past year (almost half of total deliveries) probably prevented an even greater decline in paddy prices. Farmers reportedly consider the price too low for profitable sales and, now that the need for Tet money is past, probably will be less willing to sell paddy cheaply. Moreover, because the price of pork rose sharply in 1970, farmers apparently diverted large quantities of rice to livestock feed. A continuation of low prices for paddy and high prices for hogs could promote further diversion to livestock feed and leave less for shipment out of the Delta. By early March, once the main harvest is completed -- and especially if the price of imported rice is increased -- paddy prices may start recovering. Nevertheless, the government may have to buy even larger amounts of rice this year if the deficit areas are to be supplied, particularly if merchants cannot get enough capital at a reasonable rate to finance larger deliveries.

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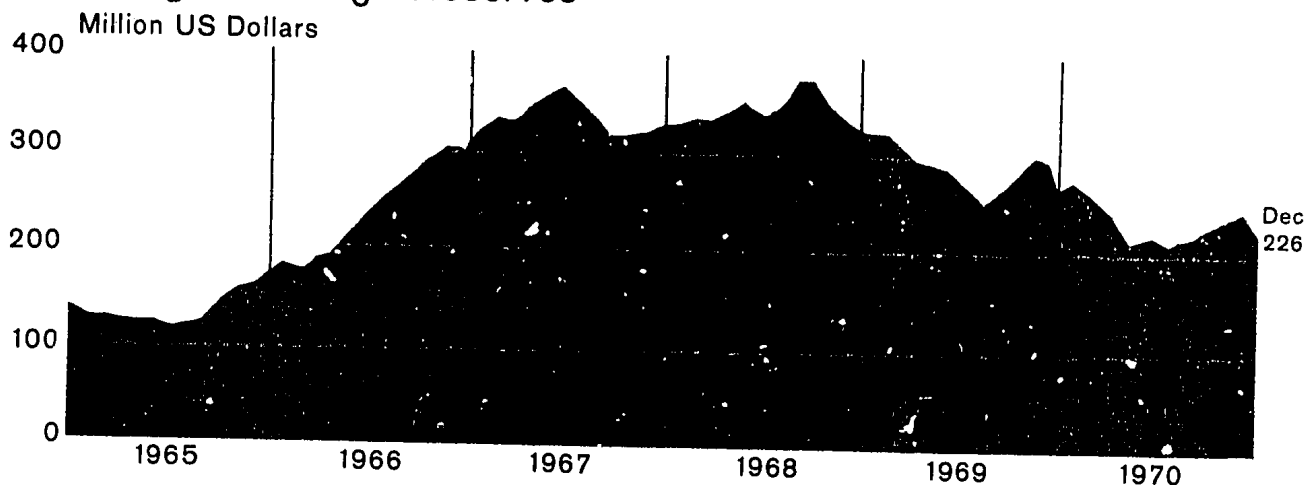
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11. The distribution of large quantities of domestic rice to the rice-deficit areas presents additional problems. There are not enough coastal ships -- the least expensive and most secure means of transport -- to carry the volume of rice required. Foreign exchange has been allotted to purchase two 2,000-3,000 ton vessels, but more will be needed. In the interests of increasing efficiency and reducing graft, most economic officials would like to see private commercial interests take over the rice market in Military Regions 1 and 2. But wholesalers have become dependent on the government -- the sole importer of rice -- for their supplies and have very few contacts with Delta millers and merchants. The existence of an established government rice distribution system in the northern provinces discourages Delta merchants from trying to compete. Moreover, as long as there still is imported rice available at prices below domestic rice prices, there is no incentive to market Delta rice.

12. Becoming self-sufficient again in rice clearly will not be easy for South Vietnam. The government may become more and not less involved in the rice market. Pricing and distribution problems may result in the need for further imports despite the fact that domestic output is expected to be sufficient.

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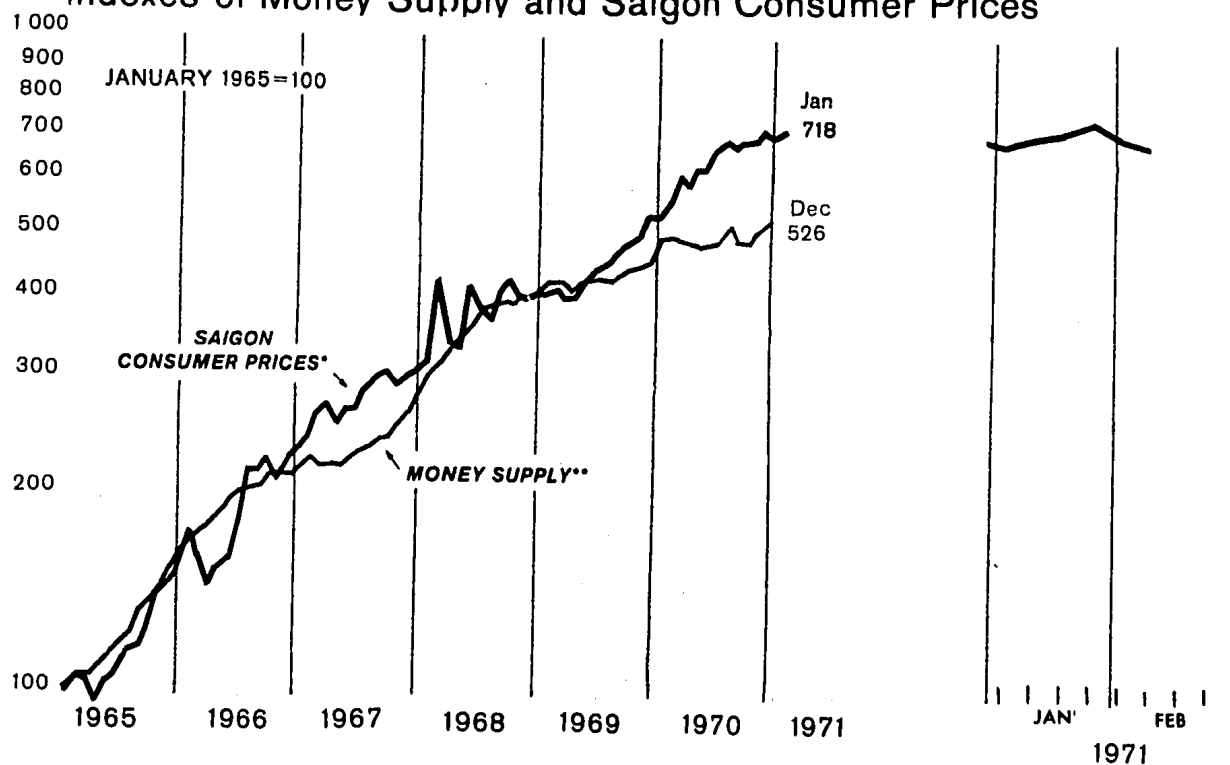
## SOUTH VIETNAM Foreign Exchange Reserves\*



\*Excluding holdings of commercial banks

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## SOUTH VIETNAM Indexes of Money Supply and Saigon Consumer Prices



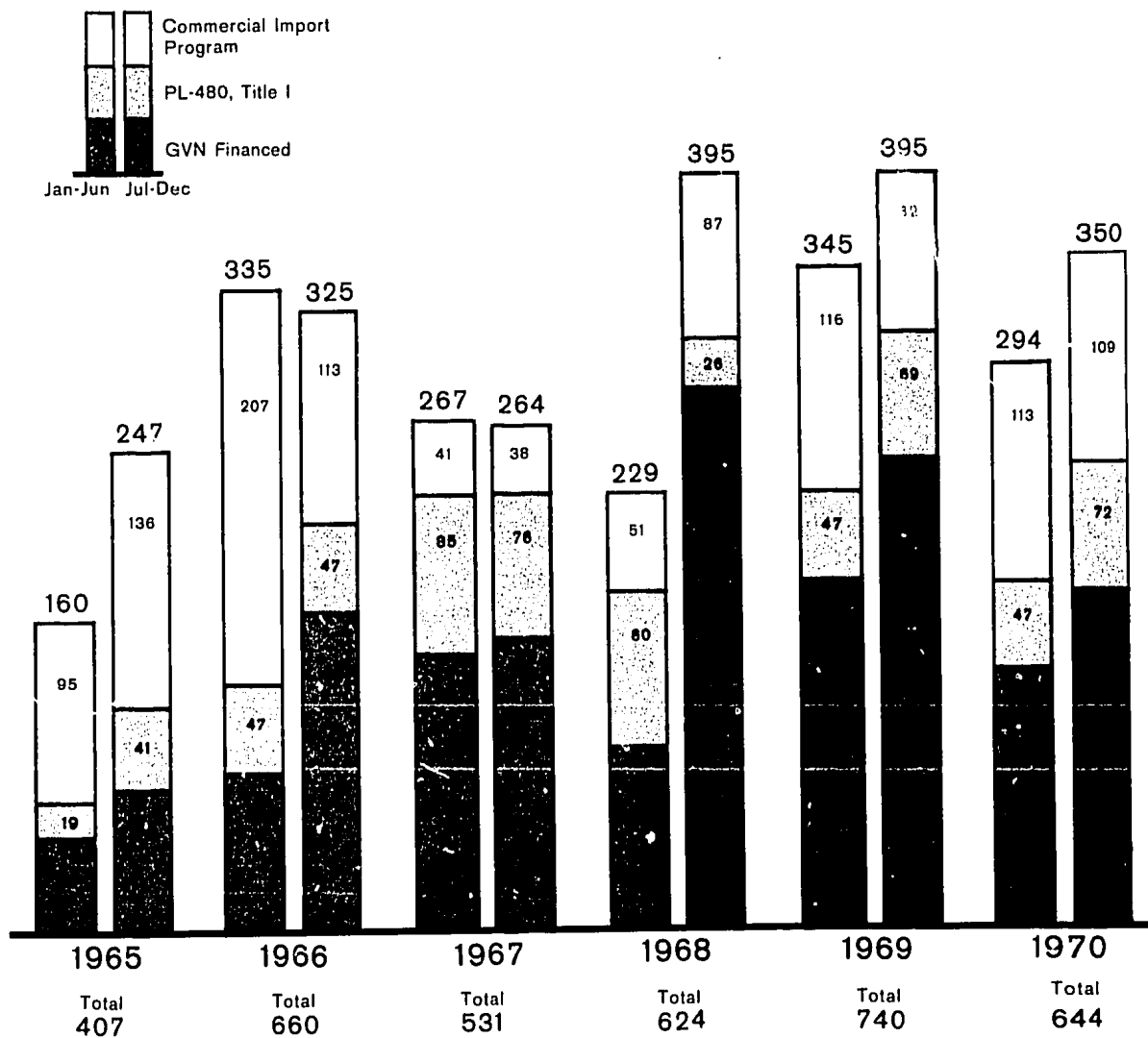
\*USAID monthly average retail price index for Saigon

\*\*Data are for end of month

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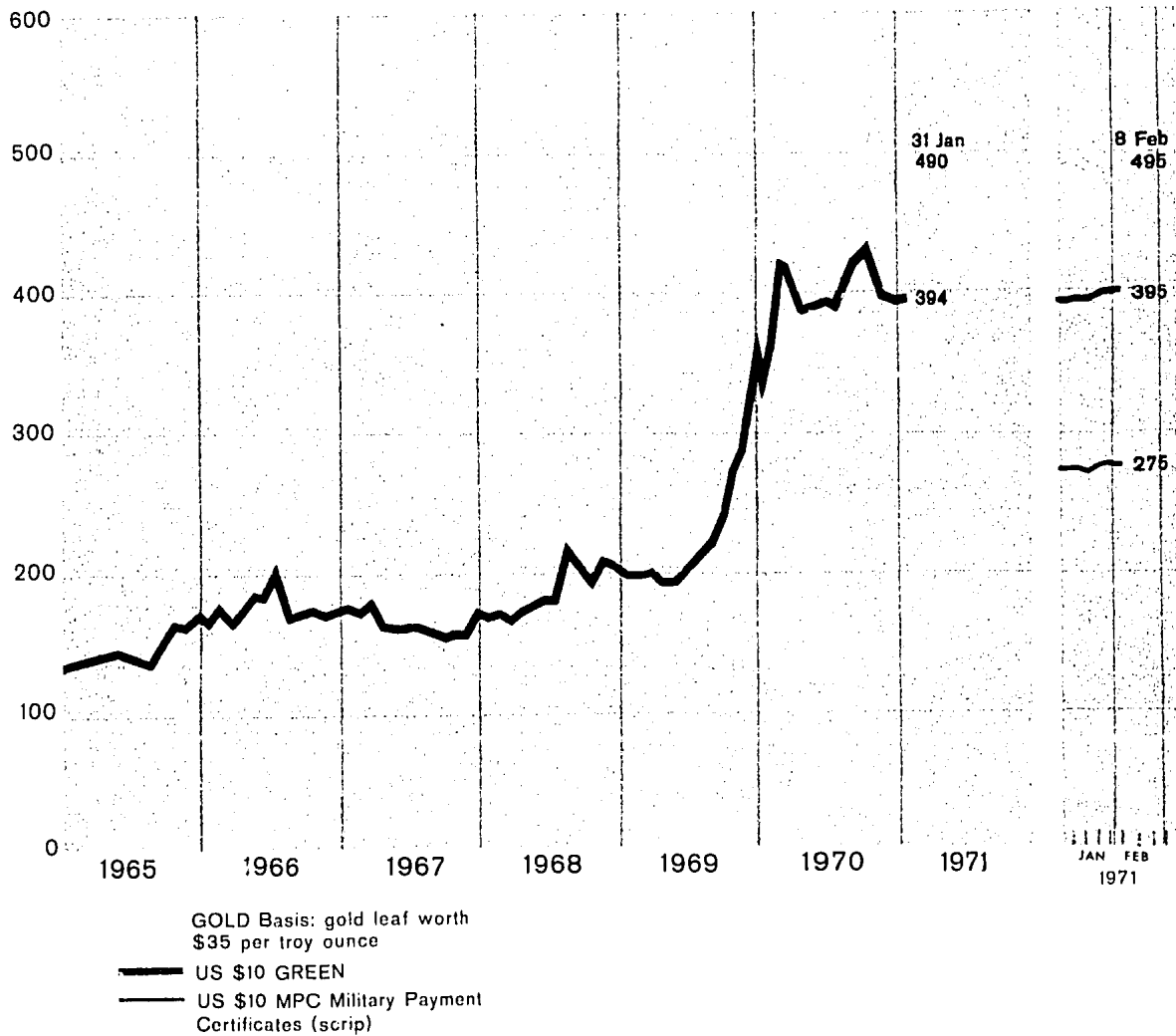
# IMPORT LICENSING

Million US Dollars



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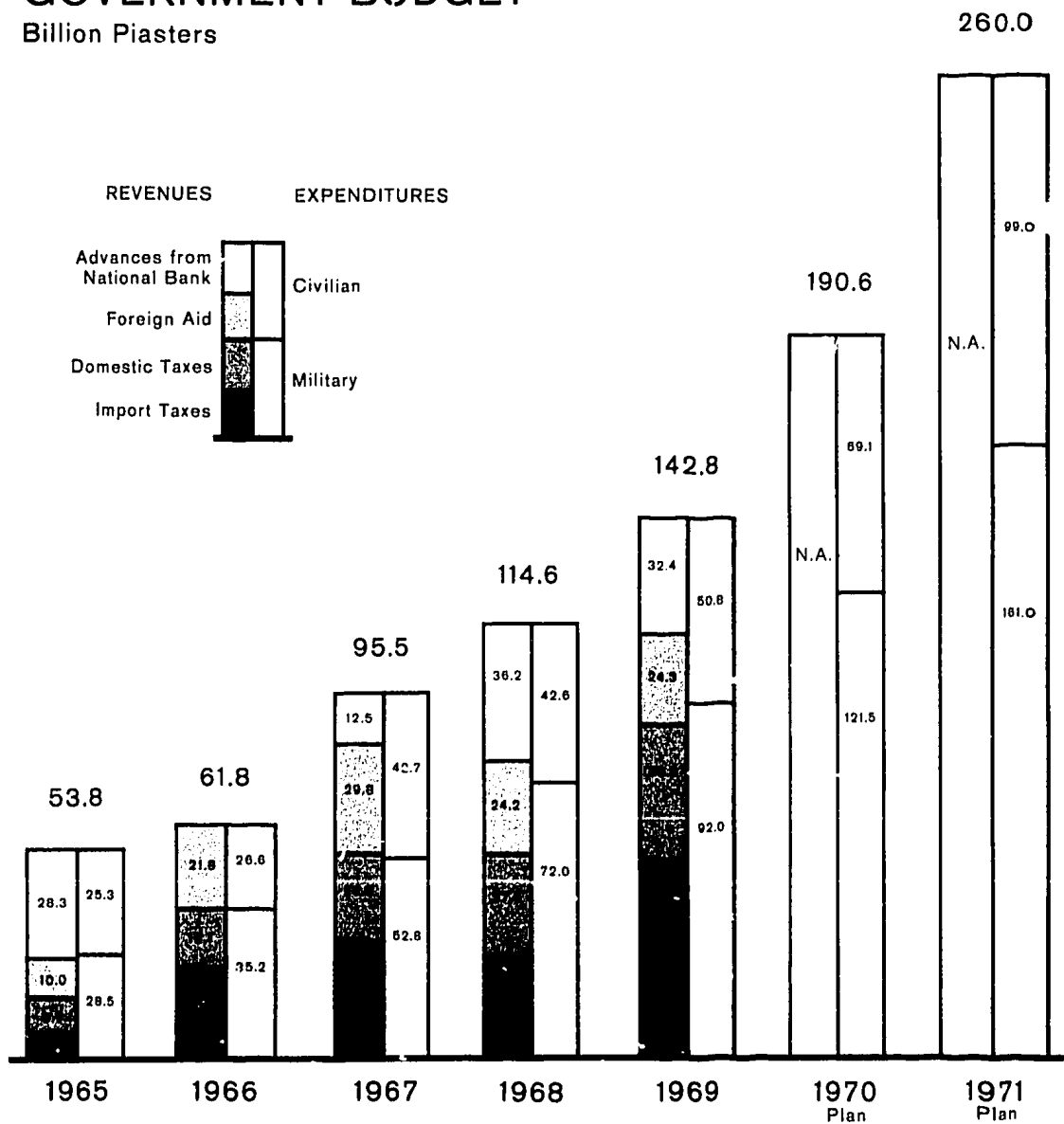
# SAIGON Free Market Gold and Currency Prices Piasters Per US Dollar



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# GOVERNMENT BUDGET\*

Billion Piasters



\*Data include extrabudgetary revenues and expenditures

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